

BUDGET BUZZ

Labour and Employment

Budget 2026–27 has been framed within the Government's vision of *Viksit Bharat*, with employment generation, skilling, and workforce participation positioned as key drivers of economic transformation. The finance minister repeatedly emphasized labour and employment, mentioning it over fifteen times, reinforcing workforce development as central to the Union Budget. Below are the highlights impacting the Indian Workforce.

LABOUR CODES AND COMPLIANCE FRAMEWORK

The Budget reiterates the Government's reform agenda, confirming the rollout of over 350 reforms including the notification of the four Labour Codes. It emphasises continued engagement between the Centre and States to rationalise compliance requirements, simplify regulatory processes, and reduce the compliance burden on employers, with a view to encouraging formalisation and ease of doing business.

MANUFACTURING, INDUSTRIAL CLUSTERS AND JOB CREATION

Initiatives such as Biopharma SHAKTI and the modernization of 200 legacy industrial clusters are aimed at strengthening domestic manufacturing capabilities. From an employment perspective, these measures are expected to generate high skilled scientific, technical, and regulatory roles, along with indirect and semi-skilled employment across supply chains, particularly in Tier II and Tier III industrial regions.

MSME's AND WORKFORCE FORMALISATION

MSMEs continue to be central to employment generation, with Budget 2026 proposing the creation of an SME Growth Fund and enhanced access to risk capital. These measures are intended to help scale enterprises, improve access to finance, support formalization of the workforce, and expand

employment across informal and semi formal segments of the economy.

LABOUR INTENSIVE SECTORS AND TEXTILES

The Budget places strong emphasis on textiles and allied labour-intensive sectors through an integrated approach focusing on self-reliance, cluster modernization, and the development of mega textile parks. Skilling initiatives such as Samarth 2.0 aim to upgrade workforce capabilities, improve productivity, and enhance global competitiveness across the textile value chain, including traditional and artisanal segments.

SERVICES SECTOR, TOURISM AND REGIONAL DEVELOPMENT

Services are positioned as a key engine of long-term growth and employment, supported by the proposed high powered standing committee to identify employment rich sub-sectors and address regulatory challenges. Investments in tourism infrastructure, hospitality skilling, and region-specific initiatives in the Northeastern and Purvodaya regions are intended to promote local employment opportunities, support regional development, and reduce migration.

EDUCATION, HEALTHCARE AND WORKFORCE READINESS

The Budget strengthens workforce readiness through the establishment of new universities and education townships, improved student accommodation including girls' hostels, and expanded healthcare, allied health, caregiving, and AYUSH training programmes. These initiatives seek to align education and skilling with industry requirements and create a steady pipeline of employable talent across sectors.

WOMEN LED EMPLOYMENT AND EMERGING TECHNOLOGIES

Women led enterprises are supported through initiatives such as SHE Marts, enhanced access to finance, and institutional support frameworks aimed at promoting entrepreneurship and formalization. At the same time, AI and other emerging technologies are positioned as tools for workforce transformation, with a focus on AI enabled skilling, job matching platforms, and national research missions to support future ready employment.

ELP's INSIGHTS

While Budget 2026 sets a constructive direction for employment growth and workforce formalization, its effectiveness will depend on pragmatic interpretation, strong compliance frameworks, and alignment between technological advancement and human capital. The absence of clarity on Labour Code implementation timelines and transition mechanisms continues to create regulatory uncertainty for employers, particularly in workforce restructuring, industrial relations, and social security compliance. Considering the emphasis on upskilling and deployment of labour in various sectors, it is imperative that every State will have to be ready with their respective rules and implementation mechanism under the new Labour Codes, sooner than later.

Budget 2026 signals a clear intent to boost employment through targeted initiatives across MSMEs, textiles, services, biopharma, tourism, and healthcare. Measures such as Biopharma SHAKTI, textile parks, and the revival of legacy industrial clusters are expected to generate high skilled and semi-skilled employment, particularly in Tier II and Tier III regions, while regional investments in the Northeastern and Purvodaya regions aim to create local jobs and reduce migration. The Budget also promotes women led enterprises through initiatives such as SHE Marts, supporting entrepreneurship and workforce formalisation. The Budget positions AI as an enabler of workforce transformation, supported by AI enabled training, job matching systems, and a standing committee to assess labour impact. A strong focus on upskilling through new universities, education townships, sector specific skilling programmes, and AI based platforms is intended to create a future ready and mobile workforce. In addition, measures such as TDS on manpower supply services are alignment with the Code on Social Security to strengthen protections for contractors and gig workers, improve transparency, and advance the formalisation of non-traditional employment arrangements.

Areas deserving refinement

Despite references to corporate tax rationalisation, the Budget does not introduce employment linked fiscal incentives or targeted tax relief for labour intensive sectors, limiting the private sector's immediate hiring response. Continued ambiguity around Labour Code implementation, in the absence of timelines or interpretative guidance, perpetuates compliance uncertainty and may delay hiring and formalization, particularly for MSMEs. While AI is promoted as a transformative tool, the lack of safeguards against AI driven displacement and the absence of mechanisms to measure the effectiveness of upskilling initiatives increase the risk of job losses and superficial technology adoption without commensurate employment outcomes.

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